



POLICY 052/2017 RAADSBELEID

SUBJECT/ONDERWERP: **TARIFF POLICY**

REFERENCE/VERWYSING: **5.3.1.B & 5.20.B**

RESOLUTION NR/BESLUIT NO: **10/05/2017 (CM)**

DATE/DATUM: **30 May 2017**

INDEX

	PAGE
PREAMBLE	3
1. DEFINITIONS	3
2. PURPOSE OF THIS POLICY	5
3. TARIFF PRINCIPLES	5
4. CATEGORIES OF CUSTOMERS	7
5. INVESTMENTS, INCENTIVE POLICY	8
6. INDIGENT RELIEF	8
7. SERVICE EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS	9
8. TARIFF TYPES	10
9. CALCULATION OF TARIFFS FOR MAJOR SERVICES	11
10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES	15
11. IMPLEMENTING AND PHASING IN OF THE POLICY	15
12. PROCEDURES AND ACCOUNTABILITY	15
13. SHORT TITLE	15

PREAMBLE

Whereas Section 74 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) requires a municipal council to adopt a tariff policy on the levying of fees for municipal services;

And whereas the tariff policy at least should include the principles contained in Section 74(2) of the Act; thus giving effect to the By-Law required in terms of Section 75 of the Act;

And whereas the tariff policy may differentiate between different categories of users, debtors, service providers, service standards and geographical areas as long as such differentiations do not amount up to unfair discrimination;

Now therefore the Municipal Council of the Dawid Kruiper adopts the following Tariff Policy:

1. DEFINITIONS

(1) In this Tariff Policy, unless the context otherwise indicates -

“Accounting Officer” means the Accounting Officer appointed in terms of Section 54A of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) as amended, and being the head of administration and Accounting Officer in terms of Section 55 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000) and includes any person:-

- (a) acting in such position; and
- (b) to whom the Municipal Manager has delegated a power, function or duty in respect of such delegated, power, function or duty;

“Basic municipal services” means the amount or any municipal services that are necessary to ensure an acceptable and reasonable quality of life and which, if not provided, could endanger public health or safety of the environment and for the purposes of this policy are restricted to electricity, water, refuse removal and sewerage services;

“Break-even” means the financial situation where the income derived by the Municipality from the supply of a service is equal to the aggregate of the fixed and variable costs associated with the provision of the service concerned.;

“Capital contributions” means the tariffs payable in respect of the water, electricity, sewerage, storm water, roads and refuse removal infrastructure of the Municipality and which amounts excludes amounts payable towards the operational and maintenance costs of such infrastructure;

“Community services” means the services that the Council has classified as such and in respect of which the tariffs are set at a level that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature.

“Consumer, customer, owner, occupier, and account-holder” -

means individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied. The levying of tariffs, fees, charges, etc. depends on statutory clauses, approved tariffs in terms of by-laws, contracts, agreements or tacit uses of services in certain circumstances. Such levies are payable on presentation of any invoice or monthly statement issued by the Accounting Officer. Payments are due by the date indicated for the transaction, in an agreement/contract or on an invoice or monthly statement as the case may be.

“Council or Municipal Council” means a Municipal Council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and for the purpose of this policy, the Municipal Council of the Dawid Kruiper Municipality;

“Director” means a person appointed by Council in terms of Section 56 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as a manager directly accountable to the municipal manager;

“Economic services” means services that Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers;

“Fixed costs” means costs which do not vary with consumption or volume produced;

“multi-purpose” in relation to a property means the use of a property for more than one purpose;

“Municipality” means the institution responsible for the collection of funds and the provision of services to the customers of Dawid Kruiper;

“Resident” means a person who normally resides in the jurisdictional area of the Dawid Kruiper Municipality;

“The Act” means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000);

“Total cost” means the sum of all fixed and variable costs associated with a service;

“Trading services” means services that the Council has classified as such and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services;

“Units consumed” means the number of units consumed of a particular service;

“Variable costs” means costs that vary with consumption or volume produced;

(2) Language preference for interpretation

Should any uncertainties arise due to the translation or interpretation of this Tariff Policy, due to translations thereof in Xhosa and/ or Afrikaans, the English version will be regarded as the appropriate and correct version for interpretation purposes;

2. PURPOSE OF THIS POLICY

(1) The Dawid Kruiper Municipality wishes to achieve the following objectives by adopting this Tariff Policy:

- (a) To comply with the provisions of Section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- (b) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of Section 76(b) of the Act.
- (c) To give guidance to the Portfolio Committee for Finance and Executive Committee regarding tariff proposals that must be submitted to Council annually during the budget process.

3. TARIFF PRINCIPLES

The Dawid Kruiper Municipality wishes to record that the following tariff principles will apply:

- (1) Service tariffs imposed by the Municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the financial ability of the relevant user of the services to which such tariffs relate, shall not be considered as a criterion.
- (2) Tariffs for the four major services rendered by the Municipality, namely:
 - (a) electricity;
 - (b) water;
 - (c) sewage (waste water); and
 - (d) refuse removal (solid waste),

shall, as far as possible, be calculated at a level which will recover all expenses associated with the rendering of these services.

- (3) During the annual budget processes the Municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the four major services generate operating surpluses.
- (4) Surpluses generated on major services will be determined during the approval of the annual operating budget.
- (5) Surpluses generated on major services shall be applied in relief of property rates.

- (6) To prevent existing consumers from subsidising the capital costs associated with new developments and subdivisions the Municipality will plan and manage the extension of services in such a manner that it will not impact negatively on the fixed costs and availability charges of existing tariffs.
- (7) Capital contributions to finance new developments and subdivisions will be required from all developers.
- (8) All users of municipal services, within a category of users, will be treated equitably.
- (9) The amount payable by consumers and/or owners will generally be in proportion to usage of the service.
- (10) The Municipality shall develop, approve and at least annually review an indigent management policy for the municipal area. This policy shall set out clearly the Municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.
- (11) Subject to annual budgetary provisions and the availability of funds from National Treasury through the equitable share contribution the Municipality may consider supplying free basic services to categories of consumers. Indigent households must have access to basic services, however relief will be granted to indigent households on a targeted approach. Free basic services will only be possible, if National Government pay to the municipality an equitable share subsidy which covers the full costs of the free basic services.
- (12) In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the Municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis.
- (13) Tariffs should preferably reflect the total cost of services.
- (14) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
 - (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
 - (ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services in order to subsidise rates and general services.
 - (iii) By ensuring that service providers retain a fair rate of return on their investments.
- (15) Provision may be made in appropriate circumstances for surcharges on tariffs.

- (16) Efficient and effective use of resources may be encouraged by providing for penalties to prohibit or restrict exorbitant use.
- (17) The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the indigent or incentives for local economic development.
- (18) Provision may be made for the subsidisation of indigents and the promotion of local economic development by creating cost votes in the service budgets and including the costs in tariff calculations.
- (19) VAT from all tariffs is determine as per approved tariff list
- (20) This policy shall be binding on all tariffs other than those governed by legislation, which supersedes the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000).
- (21) A property used for multiple purposes must, for purposes related to the services concerned and the categories of users will be calculated at the appropriate and applicable rate for each distinct use of the property.
- (22) In order to provide the Municipality with appropriate security for payment of amounts owing to it from time to time for services rendered, the Council shall impose a system of deposits payable by customers. The deposits shall be set with due regard to the potential financial risk associated with the amounts owing from time to time as well as sufficient provision for working capital. The level of the deposits shall be revised annually and the Municipality may introduce transitional arrangements in respect of existing users.

4. CATEGORIES OF CUSTOMERS

- (1) Separate tariff structures may be imposed for the following categories of consumers (which the council may change):
 - (a) domestic consumers;
 - (b) commercial consumers;
 - (c) industrial consumers;
 - (d) agricultural consumers;
 - (e) organs of state;
 - (f) municipality;
 - (g) consumers with whom special agreements were made;
 - (h) consumers in certain geographical areas;
 - (i) sport and recreation facilities
 - (j) private schools & educational institutions; and
 - (k) public benefit organisations and suchlike institutions.
- (2) Council may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

- (3) Where there are substantial differences between the infrastructures used to provide services to specific groups of users within a category and/or standard of services provided, the Council can, after considering a report by the Accounting Officer or the relevant Director of a Department determine differentiated tariffs for the different consumers within the specific category.
- (4) Differentiated tariffs must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.
- (5) If, for purposes of determining the tariff applicable to a particular user or category of users, the user or category of users has not specifically by definition been included under a defined category of users, the Municipal Manager shall, by applying the closest match principle, determine the category under which the user or category of users fits in best taking into account the nature of the service concerned and the user or category of users involved.

5. INVESTMENTS AND INCENTIVE POLICY

- (1) Tariffs will not reflect incentives for investment or to promote economic development. Such incentives will be developed as a separate policy and be subject to the discretion of council as to sustainability.
- (2) All such incentives will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.

6. INDIGENT RELIEF

- (1) Tariffs will not reflect relief granted to indigent households. Such incentives will be developed as a separate policy and be subject to the discretion of council as to sustainability.
- (2) As such, relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements and/ or reports.
- (3) During implementation of this policy, cognisance will be taken of the fact that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments may be phased in over time.
- (4) Indigent households are expected to manage their consumption beneath the levels of relief granted and are responsible for the payment of electricity and water consumption above the levels of relief granted.
- (5) Assistance and management of poor households is contained in the Customer Care, Credit Control, Debt Collection and Indigent Policy/ Bylaw. The municipality, however, retains the right to limit consumption through prepaid meters or restriction of services if the account of an assisted household falls into arrears.

7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS

Service Classification

(1) To isolate the costs associated with a service, the Chief Financial Officer shall, subject to the guidelines provided by National Treasury of the Department of Finance and/or the Municipal Council, make provision for *inter alia* the following classification of services.

(a) *Trading Services*

- (i) Water
- (ii) Electricity

(b) *Economic Services*

- (i) Refuse removal
- (ii) Sewerage disposal
- (iii) Fixed billboards and the display of advertisements in public places
- (iv) Holiday resorts

(c) *Community Services*

- (i) Air pollution
- (ii) Administration and treasury services
- (iii) Fire fighting services
- (iv) Local tourism
- (v) Town planning
- (vi) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law.
- (vii) Storm water management system in built-up areas
- (viii) Trading regulations
- (ix) Cemeteries
- (x) Control of public nuisances
- (xi) Control of undertakings that sell liquor to the public
- (xii) Crime prevention
- (xiii) Facilities for accommodation, care and burial of animals
- (xiv) Fencing and fences
- (xv) Housing facilitation
- (xvi) Licensing of dogs
- (xvii) Licensing and control of undertakings that sell food to the public
- (xviii) Local Economic development
- (xix) Local amenities
- (xx) Local sport facilities
- (xxi) Marketing
- (xxii) Municipal parks and recreation
- (xxiii) Municipal roads
- (xxiv) Noise pollution
- (xxv) Pounds
- (xxvi) Public places
- (xxvii) Street trading/street lighting

- (xxviii) Trading licenses
- (xxix) Traffic and parking
- (xxx) Building control
- (xxxi) Licensing of motor vehicles and transport permits
- (xxxii) Nature reserves

(d) Subsidised Services

- (i) Health and ambulance
- (ii) Libraries and museums
- (iii) Proclaimed roads

Expenditure Classification

- (2) Expenditure categories will be classified in accordance with Generally Recognised Accounting Practice (GRAP).

Cost Elements

- (3) The following cost elements may be used to calculate the tariffs of the different services.

- (a) **Fixed Costs:** Which consist of the capital costs (interest and depreciation) on external loans; depreciation on assets obtained through grants; as well as depreciation on assets obtained through own funds, whichever are applicable to the service, and any other costs of a permanent nature as determined by the Council from time to time.
- (b) **Variable Cost:** This includes all other variable costs that have reference to the service.
- (c) **Total Cost:** This is equal to the fixed cost, plus variable cost.

8. TARIFF TYPES

- (1) In determining the type of tariff applicable to the type of service, the municipality shall make use of any of the following five options or a combination thereof.

- (a) **Single tariff:** This tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer, the council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.
- (b) **Cost related two to four part tariff:** This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs may be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and may be recovered by a fixed charge, independent of consumption for all classes of consumers; or the total costs may be recovered by a unit charge per

unit consumed. Three and four part tariffs will be used to calculate the tariff for electricity and to provide for maximum demand and usage during limited demand.

- (c) **Inclining block tariff:** This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.
- (d) **Declining block tariff:** This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.
- (e) **Regulating tariff:** This tariff is only of a regulatory nature and the municipality may recover the full or a portion of the cost associated with rendering the service.
- (f) **Cost plus mark-up tariff:** This tariff is for other services rendered.

9. CALCULATION OF TARIFFS FOR MAJOR SERVICES

(1) In order to determine the tariffs which must be charged for the supply of the four major services (electricity, refuse removal, sewerage and water), the municipality shall use service and expenditure classifications and cost elements contained in Section 7 and identify all the costs associated with the service concerned, including specifically the following:

- (a) Cost of bulk purchases in the case of water and electricity.
- (b) Distribution costs, including distribution losses in the case of water and electricity.
- (c) Depreciation and finance charges.
- (d) Maintenance of infrastructure and other fixed assets.
- (e) Administration and service costs, including:
 - (i) Service charges levied by other support services such as finance, human resources and legal services;
 - (ii) Reasonable general overheads such as the costs associated with the office of the Accounting Officer;
 - (iii) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock; and
 - (iv) All other ordinary operating expenses associated with the service concerned including in the case of the electricity service, the cost of providing street lighting in the municipal area.
- (f) The cost of the democratic process in the municipality – that is all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues and shall also be included into the costing of the major services of the municipality.

- (g) The intended surplus to be generated for the financial year, such surplus to be applied:
- (i) As an appropriation to the capital replacement reserve, and/or
 - (ii) Generally in relief of rates and general services.
- (h) The municipality shall provide the first 10 Kl of water per month free of charge to all approved indigent households and may extend the provision of the first 10 Kl of water per month free of charge to all other domestic consumers.

Electricity

- (2) (a) The guidelines and policy issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- (b) To make electricity affordable to certain categories of consumers, cross subsidisation between and within categories of consumers, will be allowed based on the load factors of the categories and consumers within the category.
- (c) The fixed costs or portions thereof will be recovered through an energy or time-of-use charge.
- (d) To apply the abovementioned principles, the consumer types and cost allocations reflected in the following table will be used:

Categories of consumers	Fixed Charge Rand/ Customer/ Month	Active Energy Charge Cents/kWh	Seasonally Time-of- Use Energy Charge Peak/ Standard Off- Peak (kWh)	Capacity/Charge /Rand /kVA/Month
Domestic Pre-paid		X		
Domestic	X	X		
Business Pre-paid		X		
Small business > 60A	X	X		
Small business < 60A	X	X		
Business = 400 V	X	X		X
Business = 11 kV	X	X		X
Itinerant customers		X		
Special Maximum kWh		X		

- (e) Where a property is not connected to the electricity reticulation system, but can reasonable be so connected, an availability tariff will be payable.

Water

- (3) The categories of water consumers as set out below, shall be charged at the applicable tariffs as approved by the council in each annual budget.

Categories of consumption and charges

- (4) (a) The first 10 (ten) Kl of water consumption per month shall be supplied free of charge to all indigent household consumers.

- (b) Because water is a scarce national resource and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.
- (c) The tariffs for domestic consumption shall be based on the levels reflected in the tariff structure.
- (d) The cost of water in the third step will be calculated at break even and will include any basic / availability charges.
- (e) The non-domestic consumers' tariff shall be based on the levels reflected in the tariff structure.
- (f) A basic charge per water meter in the rural area as determined by the council from time to time may be charged on all water consumers, except consumers using pre-paid meters.
- (g) Where consumers are not connected to the water services or consumers that can reasonable connect to the service within an approved township establishment, an availability tariff will be payable.

Refuse Removal

- (5) (a) A separate fixed monthly refuse removal charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary from once a week up to 7 times a week.
- (b) The fixed basic charge will be based on volume removed and the costs associated with its disposal.

Sewerage

- (6) The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

Categories of usage and charges

- (7) (a) A basic (availability) charge per month shall be charged for undeveloped erven.
- (b) A separate fixed monthly sewerage charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary, e.g. night soil removal service, cesspool service, waterborne sewerage service, etc.
- (c) An effluent fee shall further be payable by factories and other industrial users where the waste water emanating from such users requires special purification

measures by the municipality. Such fees shall be based on the toxic content of the waste water concerned and the costs of the purification.

Minor tariffs

- (8) (a) All minor tariffs shall be standardised within the municipal region.
- (b) All minor tariffs shall be approved by the council in each annual budget and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
- (c) Minor tariffs shall include the following:
- (i) Cemetery fees
 - (ii) Housing rentals
 - (iii) Library fees (e.g. membership fees, fines, lost books, lost membership cards)
 - (iv) Rentals for the use of municipal premises
 - (v) Rentals for the use of municipal sports grounds
 - (vi) Rentals for the lease of municipal property
 - (vii) Building plan fees
 - (viii) Advertising sign fees
 - (ix) Plastic bag sales
 - (x) Refuse bin sales
 - (xi) Cleaning of stands
 - (xii) Sewerage connection fees
 - (xiii) Photostat copies and faxes
 - (xiv) Clearance certificates
 - (xv) Pound fees
 - (xvi) Electricity: disconnection and reconnection fees
 - (xvii) Electricity: new connection fees
 - (xviii) Water: disconnection and reconnection fees
 - (xix) Water: new connection fees
 - (xx) Penalty and other charges in terms of paragraph 22 of the Customer Care, Credit Control, Debt Collection and Indigent Policy
 - (xxi) Supply of information
 - (xxii) Garden refuse removal
 - (xxiii) License fees (drivers, learner license and road worthy)
 - (xxiv) Sale of livestock
 - (xxv) Sale of miscellaneous items

- (d) The Accounting Officer shall maintain a list of all minor services indicating their unit of service for the purpose of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees, charges and levies.

10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES

- (1) After a draft budget as required by the Local Government: Municipal Finance Management Act (MFMA) has been tabled, the Accounting Officer must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- (2) After approval of the budget, the Council will give notice of all tariffs approved at the annual budget meeting at least 30 days prior to the date that the tariffs become effective.
- (3) A notice stating the purpose of the Council Resolution, date on which the new tariffs shall become operational and invitation for objections, will be advertised by the Municipality.
- (4) All tariffs approved must have been considered at the annual budget meeting.

11. IMPLEMENTING AND PHASING IN OF THE POLICY

- (1) The principle contained in this policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in Section 75 of the Act.
- (2) Council may determine conditions applicable to a community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.

12. PROCEDURES AND ACCOUNTABILITY

- (1) The Accounting Officer shall ensure that procedures to manage all aspects of this policy are prepared in the form of a manual, reviewed regularly and that these are formally adopted by him/her for implementation. These procedures will include aspects in this policy and subscribe to sound principles of internal control.
- (2) The Director of a Department shall ensure compliance with the procedures as approved from time to time by the Accounting Officer to give effect to the provisions of this policy.

13. SHORT TITLE

- (1) This policy is the Tariff Policy of the Dawid Kruiper Municipality.